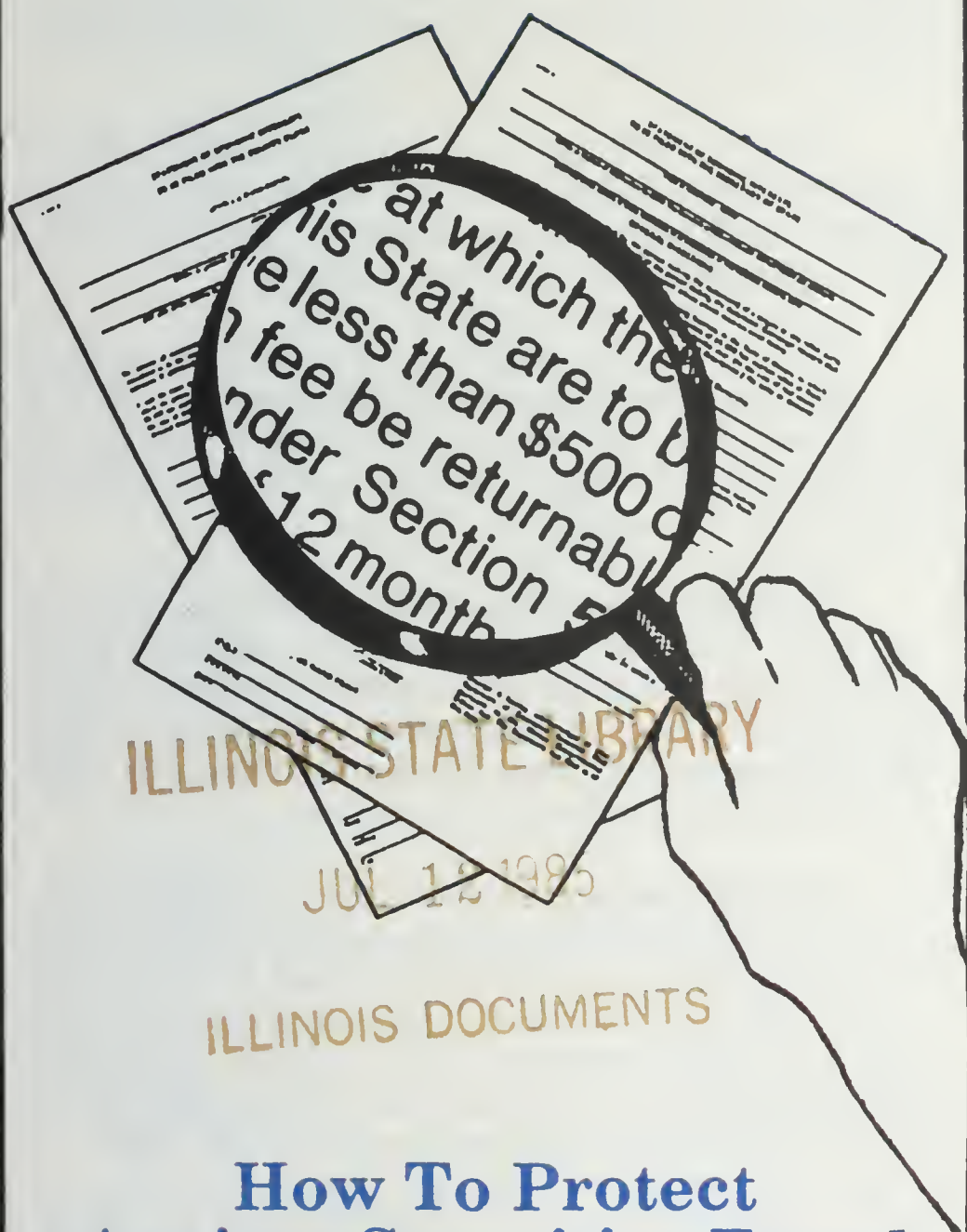


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# Investigate Before Investing



**How To Protect  
Against Securities Fraud**

**JIM EDGAR**  
Secretary of State



## Investigate Before You Invest

Each year, Illinois residents invest billions of dollars in securities. Most securities are sold in legitimate transactions. Still, Illinois residents lose millions of dollars in fraudulent schemes every year.

Unlike other types of crimes, victims of securities fraud voluntarily surrender their money. Consequently, **you** are in the best position to protect yourself from becoming a victim.

This pamphlet contains information and tips which may help you tell the difference between a legitimate investment and a fraudulent scheme. It should assist you in making wise investment decisions.

Before investing in securities, you may wish to consult your lawyer and should consult your accountant, banker, securities dealer, or other financial advisor, to determine whether or not the investment suits your financial condition and investment objectives.

Although the securities industry is highly reputable, it contains some dishonest individuals who knowingly defraud investors of their hard-earned money. If you have any suspicions or questions about possible securities fraud, please notify the Illinois Securities Department in Springfield at (217) 785-4948 or in Chicago at (312) 793-3384.

**A GOOD RULE TO REMEMBER IS: IF IT SOUNDS TOO GOOD TO BE TRUE, IT PROBABLY IS.**

*Jim Edgar*

Jim Edgar  
Secretary of State



**OIL AND GAS:** In 1983-1984, some 80 percent of the complaints registered with the Secretary of State's Securities Department involved oil and gas investments. Investors are guaranteed instant profits by investing in exploratory oil and gas drilling programs. Fraudulent securities are sold either in wells that are never drilled or in wells in which the production capabilities are grossly misrepresented to the investor. Sometimes several different parties are sold the same interests. High pressure sales techniques and misleading projections usually accompany the offer.



**PRECIOUS METALS AND STONES:** Investors sometimes enter into contracts for the purchase of gold, silver or other precious metals or stones on an installment basis or for delivery at a later date. In some cases the company represents that it is holding the metals or stones in its vault, but instead uses some or all of the investors' money for its own investments or to make payments to other investors. Investors are not aware of any problem until the company stops making payments or goes bankrupt. Note: Since many commodities contracts cannot be regulated by the states, defrauded investors may need to seek help from the federal Commodity Futures Trading Commission.



**TAX SHELTERS:** "Abusive tax shelters" often involve investing in entertainment promotions, real estate limited partnerships or mining ventures. The investor frequently "pays" for part of the investment in promissory notes or through letters of credit, which the promoter tells him will "never be called". Sales promoters stress the tax advantage of investing and may inflate appraisals, but normally fail to disclose the potential adverse tax consequences. Investors are then shocked when creditors of the "tax shelter" call in the notes or letters of credit, and the IRS assesses them, not only for the tax deducted, but also for interest and penalties on the overdue tax.



**PROMISSORY NOTES:** Fraudulent single and multiple-year promissory notes are sold by parties promising high interest and tax-free investments. The notes are not secured, and investors frequently have no idea how their funds are being used. Investors too often realize their errors and losses after unsuccessfully attempting to cash in their notes.



**PENNY STOCKS:** "Penny stocks" are highly speculative, low priced stocks in companies with little operating history. The dealers who sell them frequently use cold call solicitations and high pressure sales tactics. These dealers often fail to determine whether the investors are suited to bear the risk of losing their investment, and frequently fail to advise the investor, or even misrepresent, the risks involved. The high pressure hype sometimes artificially inflates the price at first, only for the investor to find at a later date that the stock is worthless.



**PYRAMID PROMOTIONS:** Members of the public are recruited supposedly to act as product distributors. Profits are not based on product sales but are promised to distributors based upon attracting new distributors. The new distributors later discover that the products they purchased are worthless, and that the money they paid for those products was paid to distributors higher up the "pyramid" for recruiting new distributors.

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## INVESTMENT TIPS

The Illinois Securities Law requires the full and accurate disclosure of information vital to investors. It is then up to you to use that information for your own protection. The following suggestions should help you to make sound investment decisions and to avoid becoming a victim of fraud:

- (1) **Read. Read. Read** the prospectus or other offering documents! If you don't understand the materials, get help from a friend who does. Avoid investments where the seller has little written information, and get all representations in writing.
- (2) Ask the promoter questions about the investments. If the answers are unsatisfactory, incomplete or do not make sense, be wary of the investment.
- (3) Investigate a company's background before investing. The Better Business Bureau may have information on the company's reputation. Individual "no-names" may be fly-by-nights who can easily take your money and run.
- (4) Question offers guaranteeing extraordinary returns in short time periods. Realize that high returns mean greater risks.
- (5) Beware of strangers making "cold" phone calls, unannounced visits or contacts by mail. Never send money as a result of these unsolicited contacts.
- (6) Be wary of investments based on rumors or tips. Even friends may encourage unsound investments, unknowingly perpetuating a fraudulent scheme.
- (7) Take your time. Do not fall for "tomorrow will be too late" tactics. Review offers with careful, unhurried skepticism.



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## IF YOU BECOME A VICTIM OF SECURITIES FRAUD . . . .

- Don't hesitate to exercise your rights under the Illinois Securities Law. Defrauded investors are entitled by law to get their money back, with interest, plus attorneys' fees.
- Notify the Secretary of State's Office at:



Hotline (800) 252-8980 (toll free)

or

The Illinois Securities Department  
840 South Spring, Suite 240  
Springfield, Illinois 62704  
Telephone: (217) 785-4948

or

The Illinois Securities Department  
188 West Randolph, Room 426  
Chicago, Illinois 60601  
Telephone: (312) 793-3384

Don't let personal pride or embarrassment keep you from reporting a fraud incident, even if your losses are small. Remember: Your failure to act will leave the violator free to defraud other investors.